

# *Memorandum*

TO: All City Employees and Retirees

FROM: Debra Figone

SUBJECT: **RETIREE HEALTH CARE  
LEARNING AND ENGAGING  
IN SOLUTIONS**

DATE: December 17, 2007

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Starting six weeks ago, I have been meeting with our City's labor and employee organizations to begin discussions about a very important topic that impacts the City and its employees and retirees, as well as other stakeholders. The topic is the cost of Retiree Health Care. Because this effort requires that we all work together, we need your assistance to help make this new effort successful.

This memo discusses:

- key background information related to retiree health issues;
- the City Council's direction to develop a process to address retiree health; and,
- the process we propose to gather input from all stakeholders, including you, regarding how we can together deal with the challenges we all face.

## **Key Background Information**

The organization that establishes accounting standards for all public agencies (the Government Accounting Standards Board or GASB) issued regulations in 2004 that became effective this year. These new regulations require San Jose and other public-sector employers to account for our total future retiree health care commitments, called an actuarial liability, in each annual financial report. Three actuaries have been retained by the Retirement Boards and the City. Although the actuaries' calculations vary, the range of estimates for this future retiree health care cost liability is from \$1.2 to \$1.65 billion. While employers are not required by GASB to set aside funds to pay for this future retiree medical cost liability in advance, there are potential negative consequences if the liability is not funded in advance. At the same time, we know that current and future retirees are counting on the City's and employees' retiree health plan contributions as an important retirement benefit. Currently, contributions for retiree medical benefits are made by the City and employees on a ratio of 1:1 (a 50%/50% split).

In response to the size of the projected liability and impact described above, the City Council considered this issue during two meetings in the month of August. From these sessions, the City Council directed staff to:

1. Engage stakeholders in identifying strategies and alternatives in addressing its unfunded liability in retiree health care;
2. Continue to survey how other cities and counties are addressing their liability;

3. Engage experts, identified by the City and stakeholders, to evaluate strategies and approaches that have been identified by stakeholders or implemented in other organizations; and,
4. Study how advance full funding can be accomplished through a phased approach.

### **Stakeholder Outreach Process**

We are in the initial phase of responding to the City Council's direction (item # 1 above). Because this issue is so important to so many people, we believe that all stakeholders (including employees and retirees) should be involved in the process to identify ways to resolve the problem. We also believe that the best way to engage stakeholders is through a collaborative approach that emphasizes open and honest communication. Our united efforts are needed to find creative and workable solutions.

Toward that end, we are creating a stakeholder outreach process which is intended to share information and ideas. I want to stress that this is not intended to be a forum where decisions are made and does not replace the negotiation process with each bargaining unit.

The services of three facilitators have been engaged for this process: Paul Hackleman, the Benefits Manager at San Mateo County and a consultant with IC Benefits, Bill Hembree, the Director of the Health Research Institute in Concord and, Shawn Spano, a communication consultant and professor at San Jose State University. These three neutral facilitators will be meeting with all identified stakeholders to solicit their input and capture their ideas. A report that consolidates stakeholders' input will be submitted to the City Council.

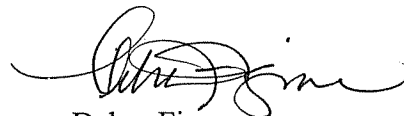
But before meeting with stakeholders, the CLA, City Staff and the City Manager have participated in retreats during November to discuss the potential for a collaborative approach, and specifically, how a collaborative approach could be useful way to tackle the retiree healthcare and GASB issues. Retreat participants have agreed that education and understanding are critical for all parties and that the education and the ideas-gathering process needs to precede the implementation of solutions and/or any meet and confer obligations.

### **Process**

To initiate this new effort, CLA representatives and City Staff have worked together to develop the following proposed process. We will begin by scheduling meetings with identified stakeholders (including employees and retirees). Building awareness about the new GASB requirements and the need for a process to address these requirements requires significant education and awareness building. Consequently, every stakeholder invited to the stakeholder outreach meetings will be sent Background Materials, and the first portion of each stakeholder meeting will be devoted to adding to the participants' awareness. At each of these stakeholder meetings, our facilitators will strive to create an open and honest climate for communication in which to solicit suggestions from employees, retirees, labor representatives, retirement boards and associations for how to address retiree health care challenges. The facilitators will record and summarize what they hear.

We are also in the process of creating a new website as a resource for everyone to use. It will contain information about GASB, the staff memo and related presentation to City Council, the actuarial reports and other information related to retiree health care. We will also be posting information related to the stakeholder sessions on the website so you will have an opportunity to see feedback that's posted on the website throughout this process. We will also capture any questions that we are unable to answer in the sessions so that we can provide an answer on the website. We will provide more information on the website in the upcoming weeks.

**The bottom line is that we need your help in this process.** Dates and locations for stakeholder meetings will be announced shortly. We want this to be a collaborative idea-gathering process that involves all stakeholders. We look forward to all ideas and suggestions you have for how we can mutually address this issue in a collaborative way. We look forward to receiving your ideas and possible recommendations.

A handwritten signature in black ink, appearing to read 'Debra Figone', with a stylized flourish at the end.

Debra Figone  
City Manager